
Minutes

Board of Natural Resources Meeting

June 3, 2008
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

The Honorable Doug Sutherland, Commissioner of Public Lands
Bruce Bare, Dean, University of Washington, College of Forest Resources
Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences
The Honorable Jon C. Kaino, Commissioner, Pacific County
Bob Nichols, for the Honorable Christine Gregoire, Washington State Governor

BOARD MEMBERS ABSENT

The Honorable Terry Bergeson, Superintendent of Public Instruction

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:07 a.m. on, June 3, 2008 in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Bob Nichols moved to approve the May 6, 2008, Board of Natural Resources Meeting Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

None

TIMBER SALES (Action Item)

Proposed Timber Sales for July 2008 (Handout 1)

Jon Tweedale, Assistant Division Manager, Product Sales & Leasing Division, greeted the Board and provided the timber sales presentation. He reported that the Department is starting the 2009 fiscal year. He noted that many of the May sales had several bidders. He explained that Douglas fir and Douglas fir green prices have come up enough to allow some of the 2X4 mills to re-enter the market. If the Department gets strong sales in June it expects total volume to approach 670 mmbf sold, and will have offered well over 700 mmbf.

Chair Sutherland asked if that includes salvage sales.

Mr. Tweedale replied that it does include some salvage sales and that of the 107 mmbf, 20 to 25 mmbf of that is salvage. The balance of the salvage will be sold in July and August. He said that the market is absorbing the salvage sales and thanked the Board for passing the blowdown resolution which has allowed the Department to get the sales out quickly.

May 2008 Sales Results:

18 sales offered & 15 sold; 73.2 mmbf offered & 60.5 mmbf sold; \$12.2 million minimum bid & \$16.28 million sold; \$167/mbf offered & \$267/mbf sold; average number of bidders = 3.6

Proposed July 2008 Board Sales:

9 sales at 42.1 mmbf; \$6.0 million minimum bid; average \$143/mbf.

Jon Kaino asked if some of the sales in July are blowdown sales.

Mr. Tweedale stated that some are blowdown sales but there is still good volume for the month of July.

Mr. Tweedale reported that there were no SEPA comments. 4 sales have not completed the 30-day forest practices appeal period but will be complete before the auction date. The sales are Par in Northwest Region, Final Grade, Riggin Fit, and Thirsty in Pacific Cascade Region.

Dan Bernardo asked if the Riggin Fit and Typo sales are examples of blowdown sales.

Mr. Tweedale replied that there are some small blowdown units in those sales.

Mr. Kaino said that he is concerned because there is over 18 mmbf in Pacific County that is being sold for under \$80/mmbf.

Mr. Tweedale said that it covers costs and still has a positive return for the trusts.

Mr. Kaino said he understands but it appears that the Department is taking a lot of inventory out for a small amount of profit. He asked if they should be sold for \$76/mmbf if they aren't blowdown.

Mr. Tweedale replied that the Department is operating under a cash flow basis, and is trying to achieve many different objectives and criteria under the Sustainable Harvest and the HCP. The Department is trying to create the habitat and the structure that it will need in the future.

Mr. Kaino stated that there is a fiduciary obligation to maximize the value of the trusts but he hopes that selling timber at \$76/mmbf to create habitat at the expense of the beneficiaries of the trusts is not a goal of the Department.

Mr. Tweedale replied that the Department is not selling at a deficit but agreed that this may be an issue the Board should discuss.

Mr. Kaino said he thought it would be a crime to sell 18 mmbf at \$76/mmbf if it is standing timber and could wait to be marketed out in the future when it is more valuable.

Mr. Bernardo asked if the blowdown volume was indicated in the product sold description in the handouts.

Chair Sutherland pointed out that there is information under the "Special Remarks" section in the handouts.

Mr. Tweedale used the Riggin Fit sale in Naselle as an example of a low priced sale. He explained that the 100 miles of extra haul, as well as high road construction costs drove the stumpage low.

Mr. Kaino said he can understand the numbers if the timber was on the ground and could not wait. He said that he would be disappointed if this was standing timber that could remain standing unless there were some characteristics of the stand that were unique and it wasn't going to improve in value.

Mr. Tweedale replied that the Department has deferred almost 30 mmbf for those reasons, and because they would have been deficit sales. He explained that DNR has to make judgment calls on the amount of blowdown and it feels this was a prudent decision.

Mr. Nichols said that this is not a black and white issue. He recalled that the Board held a discussion about threshold a few months ago. He reminded the Board members that the threshold is the key and that below a certain criteria the sales wouldn't be put out for the very reasons that Mr. Kaino mentioned, but over that, which is what we are discussing now, they can be sold.

Mr. Tweedale agreed saying that it is a financial threshold that the Department holds itself to; after that DNR looks at what it is trying to achieve such as habitat, small wood, small wood thinning, or other extraordinary circumstances that would qualify the sale because it will accomplish one of the goals under the sustainable harvest calculation such as creating habitat or salvaging blowdown. Those are the circumstances when it may be sold under the financial threshold.

Mr. Kaino said that he understands the need for operating as a cash flow business, but from a beneficiary standpoint the Department just sold 18 mmbf of the trusts assets and got \$15; it's not a deficit sale, but of little or no profit to the beneficiary.

Mr. Nichols said that there might not be an immediate revenue stream but that over the long-term the Department is creating and enhancing the assets for the trusts.

Mr. Tweedale agreed saying that in those areas DNR is creating structure to accomplish habitat goals in the future and in those specific areas it is operating 60 to 70% in creating revenue, and 30% is in creating habitat and thinning and accomplishing other goals.

Mr. Nichols said that it's not just creating habitat but also healthy forests that in the long run will produce more revenue for the trusts.

Mr. Tweedale agreed saying that silviculturally if the Department doesn't enter these stands now they will shut down and asset value will be lost. DNR is facing some of these circumstances in the OESF, and Pacific Cascade Region on the coast where the stands are very tight and the market is poor. In the Tahoma area it has lost some small wood stands and the only option is to go in and clear cut them.

Jon Kaino said that he has confidence in the Department's foresters but he wants them to know he is watching. He said it does not make sense to sell 18 mmbf for \$76/mmbf when it could be sold for \$200/mmbf in two years. He admitted that he does not know the specifics of this sale but it is hard for him to accept this as Pacific County Commissioner and wants to make sure the Department is not giving an asset away that would be much more valuable a year or so from now.

Mr. Bernardo said this conversation speaks to a larger topic of what are the criteria and that the constant challenge is a multiple objective. He said that he is not a forester but an economist and he often questions whether there is enough rigor in the calculation of the rate of return to the trusts. He referred to Mr. Nichols comments about thinning the forests so DNR can capture greater economic returns in the future. He asked how that is incorporated when the Department doesn't know the magnitude and hasn't estimated the long-term return to the operation. He wondered how it can fall back to that because it is an uncertainty which grays everything. He said he has talked about this for three years; he could not go back to his folks and say that the returns are being maximized through these practices. He deferred to Bruce Bare for comments.

Bruce Bare said that the two sales that Mr. Tweedale is referring to are not thinning sales, they are regeneration sales that he assumes are clear cut so DNR is not creating habitat.

Mr. Tweedale replied not under those circumstances, but the Department is picking up salvage.

Mr. Bare said that these are regeneration sales, and one partial cut in Snohomish County, so they don't fall into creating habitat scenario. He feels the other issue is that as DNR moved into sustainable forestry it set up trade-offs across environmental and ecological over to economic and perhaps recently it has given more attention to the environmental and ecological components than it has to the economic component and now it is seeing some of the blow back and needs to take a look at it's economic thresholds more closely. He thinks it is due to a natural course of events and the societal pressures that the department has been subjected to. He recognized that DNR is faced with a maintaining cash flow for the Department and the Board has responsibilities to the trusts. He said these questions will keep rising unless the Board members can be shown that these sales do pass financial hurdles as well as the ecological

goals they are subject to as DNR tries to create habitat under the HCP and the Sustainable Harvest. He said he thinks that is what Mr. Bernardo is asking for, and the Board hasn't received that assurance.

Mr. Tweedale replied that he has presented the decision criteria to the Board in the past. On a broader scope he recognized that DNR is not maximizing as much as it is optimizing and the Board addressed this in the Sustainable Harvest. He explained that if DNR wants to maximize revenue it goes for the highest net present value, but all that does is to cut the best and leaving the worst which is not optimization and is not achieving the goals of the HCP in the Sustainable Harvest. These sales may not be the highest revenue generating at this point in time, but DNR is optimizing its revenue over a period of time. That is the precept that the Board agreed to in the Sustainable Harvest calculation and he feels there is a stark difference between optimization and maximization.

Mr. Nichols said that there was a debate in the 1990's by the Board about playing to the markets and it does come up periodically.

Mr. Tweedale replied that if the Department is going to maximize on net present value it will cut itself out; it will cut the best and leave the worst and never optimize the operation which is an industrial model and is not what the Board agreed to. In tough markets it makes the tension even worse.

Mr. Kaino agreed with everything that was said. He said that he was not suggesting that the sales be pulled and be replaced with higher revenue sales, but from a trust perspective, if it costs \$75/mbf to get them to auction he'd rather pull and defer them.

Mr. Tweedale stated that it costs \$15/mbf to get them to auction so the trust is making \$60/mbf.

Chair Sutherland said that the split is made at 25% to 75% and when a sale is developed it has to meet the 25% range. If it is in excess of the 25% the trusts still get 75% of the total revenue generated, but if the Department's costs exceed the 25% it comes from the fund balance. It's not a case of the trusts receiving a lesser percentage of the total gross. He said that if you look at these sales and the quality of the wood being produced in the sales, the grade of wood is poor which has a significant and negative impact on the price. He asked Mr. Tweedale to explain the quality of the grade.

Mr. Tweedale said that 3 saw is not good and is pulp price. He pointed out that DNR may be regenerating some of the stands out in Naselle and Pacific County because they have shut down and the next best option is to start over.

Chair Sutherland said that age and size of the trees has an impact. He asked Mr. Tweedale to indicate what percentages of the sales are blowdown in future presentations.

Mr. Tweedale agreed to do that.

Mr. Bare said that the downside of the present value maximization criteria was overstated. He said that he would constrain that heavily to meet the other societal and ecological objectives.

Mr. Tweedale agreed saying constraining the present value is optimization he would love to have that discussion some day.

Mr. Bernardo said that the bigger issue isn't about the sales. He encouraged staff to cut that piece of tape out, listen to it and respond to it. He said he understands that it is an optimization problem, it's actually a maximization problem that's constrained and he thinks that the question is if the problem is formulated accurately and are the parameters around the economic side as well understood and specified as those on the environmental side.

Mr. Tweedale stated the Department believes it has; through the modeling that Angus Brodie has done for the Sustainable Harvest process and current forest land planning DNR is accomplishing both optimization and maximization and he will try to articulate that better.

Bruce Bare said that in the Sustainable Harvest schedule and in the report, the Department is continually asked if they are going to hit the target for the amount sold. He said that DNR is still in a volumetric mentality and that Dan is asking why we don't have a similar yardstick that looks at net revenue.

Mr. Tweedale said that the Department does have a net revenue target, and that The Board asked it to look at volume and value. He said that DNR looks at net revenue by stand, and then makes choices based on the silviculture. He agreed that the Department needs to make it more clear how those decisions are made. He said that the State of the State Lands may be an opportunity to introduce some of that information but he will also provide an update on the tools that are used during future timber sales presentations.

MOTION: Jon Kaino moved to approve the July 2008 timber sales.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

LAND TRANSACTIONS

Hamma Hamma Balds Interdepartmental Exchange #86-081545 (Handout 2)

The Department of Natural Resources proposes to exchange 161 acres, more or less, of Capitol Building Trust property and 600 acres, more or less, of State Forest Transfer Trust property for 1018 acres, more or less, of Common School Trust property in Mason County. The purpose of the exchange is to designate Capitol Building and State Forest Transfer Trust land as Common School Trust so that the newly designated Common School Trust land can be included in a proposal to be transferred to the Hamma Hamma Balds Natural Area Preserve. Benefits to the trusts will be that trust assets will be repositioned for more efficient management. The Common

School Trust will be repositioned for direct transfer at market value and Capitol Building and State Forest Transfer Trusts will be repositioned to lands that can be managed for timber revenue. Each trust will reserve such minerals as it has in its present trust land.

- A public hearing was held in Hoodsport, WA, on May 27, 2008. No one attended and no comments were received.
- The Capitol Building Trust and the State Forest Transfer Trust property is located approximately 3 miles northwest of Eldon and is within the following sections:
 - Capitol Building Trust property is in Sections 8 and 9, Township 24 North, Range 3 West, W.M.
 - State Forest Transfer Trust property is in Sections 7, 8, and 9, Township 24 North, Range 3 West, W.M.

The Common School Trust property is located within approximately 13 miles west, south and southeast of Eldon and is within the following sections:

- Sections 18, 19, and 20, Township 24 North, Range 3 West, W.M.
- Sections 4, 5, and 9, Township 23 North, Range 3 West, W.M.
- Sections 8 and 18, Township 22 North, Range 2 West, W.M.

VALUATION SUMMARY

Acres and Value by Trust

	Acres	Total Value	
Capitol Building Trust	161		\$1,317,000
Common School Trust	418		\$1,252,000
Capitol Building Trust Gain/Loss	+257	4.9%	- \$ 65,000

	Acres	Total Value	
State Forest Transfer Trust	600		\$3,630,000
Common School Trust	600		\$3,614,000
State Forest Transfer Trust Gain/Loss	0	0.4%	- \$ 16,000

Evert Challstedt, Property and Acquisition Specialist and Pene Speaks, Natural Heritage Conservation Program Manager approached the Board to present the Hamma Hamma Balds Interdepartmental Exchange.

Ms. Speaks greeted the Board to talk about the NAP and why it was designated. She explained that this preserve was designated in 2004 by the Natural Heritage Advisory Council. A public meeting was held and based on positive public comment and the recommendation from the Council, a Commissioner's Order was signed in 2005. She reviewed the boundaries of the preserve. She explained that the focus of protection in this preserve are the herbaceous balds. The NAP designation is consistent with the Natural Heritage Plan and includes several natural heritage features; any NAP has to have element occurrences that are listed in the Natural Heritage Plan. A thorough inventory of balds habitats has been done by Chris Chappell, DNR's Natural Heritage scientist, who indicated this as the best in the ecoregion. It is the best example of a priority one ecosystem and is considered good in condition, size and landscape context. Areas that need to be large enough to have long-term viability are included in NAP designations. Ms. Speaks reviewed the primary elements and their ranks:

- Roemer's fescue-field chickweed - junegrass grassland – ranked Priority 1 and is also ranked as critically imperiled from a global standpoint (G1). She explained that there are no other examples of this ecosystem in this ecoregion and this is the highest quality one.
- Montane Herbaceous bald – Ranked Priority 3. This element is not ranked globally at this point. These occur on shallow soils rocky outcrops and are often kept open because of summer droughts and wildfires which inhibits trees growing on them. This particular bald is in excellent condition, is of a large size, and is in a good context within the landscape.
- Common Bluecup – Ranked Priority 3. This is rare plant that is more common in other places than in this state. This is the only population in this ecoregion and is one of the largest populations in the state

Ms. Speaks explained that based on these features a natural area design was completed that included the balds that had the Priority 1 community, and some of the smaller balds to the east in an effort to reduce threats to those elements such as invasive species, and physical disturbances. A forest buffer was included around the balds to reduce threats; the boundary uses roads and natural features to identify the area in the field. A small piece of trust land that would have been isolated by the original preserve design was included.

Mr. Nichols asked if the bald areas were a rock outcrop or a wide area that has thin soil causing the plants.

Ms. Speaks explained that it is not just the rock outcrop which is why the soils are thin, but also the plant communities that are there.

Mr. Nichols asked why the areas remain bald.

Ms. Speaks explained that the shallow soils and the states climactic conditions make it hard for shrubs and trees to get started in those areas. Also, past fires have made it difficult for them to get started in those areas.

Mr. Nichols asked if the preserve goes into Forest Service Land and if it is part of the NAP.

Ms. Speaks replied that the Forest Service has a designation called a Research Natural Area (RNA). A local Forest Service forest manager indicated that they would manage it similar to how we manage our preserves.

Mr. Nichols asked if there are additional bald areas in the north.

Ms. Speaks replied that they were initially considered for inclusion but they were determined to be in a weedier, lesser ecological condition than the others.

Mr. Nichols asked how they became weedier.

Ms. Speaks explained that past logging practices or equipment can cause disturbances because the soils are so shallow.

Mr. Kaino asked if animals could cause disturbances.

Ms. Speaks replied that animals can cause disturbances.

Chair Sutherland mentioned grazing as a disturbance.

Mr. Kaino asked if there will be public access allowed in these areas.

Ms. Speaks replied that public access in the forest buffer will be considered when the management plan is created. She explained that there hasn't been a management plan completed in the area yet.

Mr. Kaino asked if there will be no public access until the management plan is in place until the management plan is adopted.

Ms. Speaks said that is probably the case.

Mr. Kaino said that could be many years.

Ms. Speaks replied that she hopes that wasn't the case, but that it could be depending on what the management planning capacity is at the time.

Chair Sutherland pointed out that management planning capacity comes from general fund budget.

Mr. Kaino said that he noticed in the eastern half the balds are much less prevalent and aren't as noticeable.

Ms. Speaks replied that they aren't as large so they don't show up on the aerial photo as much as the others. She said there are some smaller patches within a half mile of the others.

Mr. Kaino said it appears that 90% of the acreage could allow public access with no detrimental impacts; it could be designated as an NRCA.

Ms. Speaks said that it could be but if you look at the area it is not an easy area to get around in because of the steepness of the terrain.

Mr. Kaino speculated that if it were opened up it may only get only three people a year.

Chair Sutherland said that it would be best to access on horseback.

Ms. Speaks agreed saying that she found the hike to be difficult.

Mr. Challstedt began his presentation explaining the exchange location and properties. He noted that because there are three different trusts involved and only one is common school an intergrant exchange making it all common school has to be completed first. He outlined the transfer property which includes the entire NAP boundary that is on state property. The common school trust land is in three segments and can be transferred directly. Next he reviewed the state forest transfer trust which is in two blocks.

Chair Sutherland asked if the state forest transfer blocks were located in Kitsap or Mason County.

Mr. Challstedt replied that they are all in Mason County. He explained that the Capitol Building Trust is along the southern boundary. The total property value is almost \$5.5 million. The timber value is separated at \$5.258 million to be deposited in the Common School Construction Account, and the land value of \$221,000 will be deposited to the Land Replacement Account. There are three parcels to the south adjacent to Hoods Canal of common school trust land that makes up part of the forest transfer trust exchange, and towards the foot of the canal there are several more parcels to add that totals equal to the value of the property of the State Forest Transfer Trust. The proposal is an equal value exchange.

Mr. Challstedt explained that the proposal moves the Capitol Building Trust south of the river to another property where it will gain acreage; the values match within a 5% margin of error which is acceptable by appraisal standards. The Capitol Building Trust is an equal value exchange.

Mr. Challstedt replied that no one attended the public hearing that was held in Hoodspport and no comments have been received.

Mr. Kaino asked if the Mason County Board of Commissioners have commented or been notified of this exchange.

Mr. Challstedt replied that there have been no comments received from them and that due to a process error they have not been notified directly. He said that the hearings notification was in the local paper.

Mr. Kaino said that he cannot support this transaction without them being notified.

Mr. Challstedt apologized for the oversight. He explained that the timber values will be deposited in the Common School Construction Account and the land values will be used to buy other productive land. The property will be transferred to the NAP for protection and the Capitol Building and State Forest Transfer Trusts will be relocated outside the boundaries to be managed for timber production.

Mr. Nichols asked Ms. Speaks if this gets factored into the state's biodiversity efforts.

Ms. Speaks replied that John Gamon, the Department's Natural Heritage Program Manager is on the science technical committee that works with the Biodiversity Council. The benefit that our natural areas contribute to biodiversity conservation is factored in to statewide efforts. Some of the information that is kept in the Department's Natural Heritage database is included when the priorities for biodiversity conservation are determined.

MOTION: Mr. Kaino moved that action on this transaction be deferred until the Mason County Commissioners are formally notified and have the opportunity to comment.

SECOND: Chair Sutherland concurred with Mr. Kaino's motion.

ACTION: Motion deferred to July.

Hamma Hamma Balds Trust Land Transfer #02-081544 (Handout 3)

The Department of Natural Resources proposes to transfer 957 acres, more or less, of Common School Trust property located in Mason County to Natural Area Preserve status. Proceeds from the timber value will be deposited into the Common School Construction Account. The land value proceeds will be deposited to the Real Property Replacement Account and used to purchase replacement property desirable for the Common School Trust. Benefits to the trusts will be that the property asset base of the Common School Trust is improved by:

- Disposing of property that has been designated by the Natural Heritage Council as ecologically important for protection as a Natural Area Preserve.
- Enabling replacement of the asset with property that has greater potential for income production to provide future revenue to support public schools statewide.
- Public trust benefits include protecting lands that are included within the Hamma Hamma Balds Natural Area Preserve.

The property is located approximately 3 miles northwest from Eldon within Sections 7, 8, 9, and 16, Township 24 North, Range 3 West, and W.M., in South Puget Sound Region. There are no encumbrances, improvements or present income associated with the property.

MARKET VALUE

Timber (22,880 Mbf)	\$5,258,000
Land & Reprod.	<u>\$ 221,000</u>
TOTAL	\$5,479,000

The terms of the transfer are cash. The property is included in the 2007-2009 Biennium Trust Land Transfer Program. Approval and funding for the transfer is authorized by Washington Laws of 2008, Ch. 328, Section 3042 and RCW 79.17.200. Transfer will be by Department Order. Mineral rights will not be conveyed. As specified by legislation, permitted use will be restricted to Natural Area Preserve purposes. The Department of Natural Resources will reserve the property as Permit Lands as defined in the Department's Habitat Conservation Plan.

This transaction was deferred to the July meeting as part of the previous motion.

MOTION: NONE.

SECOND: NONE.

ACTION: Motion deferred to July.

CHAIR REPORTS

Asset Management Update (Handout 4)

Bonnie Bunning, Executive Director of Policy and Administration and Clay Sprague Policy Advisor, approached the Board to provide an update on the Asset Management Program.

Ms. Bunning greeted the Board. She reminded the Board that a number of years ago the Department began briefing the Board on the statewide process of identifying where there may

be opportunities to reposition the lands to be more productive for the trusts and to meet other conflicting demands. She explained that Mr. Sprague would be reviewing the most recent developments in the regional assessments.

Mr. Sprague greeted the Board and began his portion of the Asset Management update. He began by reviewing the process that was used to implement the budget proviso last year for acquiring working forests at the risk of conversion using money from the replacement accounts. The 07-09 Capitol Budget authorized the acquisition of working forests at threat of conversion by the Department. The Department developed sets of criteria related to what constituted trust quality forest land as well as what constituted risk of conversion. It also looked at some conservation considerations as well. The Department used its geographical information system to map lands where there may be opportunities to acquire lands meeting the criteria. He reviewed a map of Northwest Region as an example. The Department identified the lands that met the criteria for good quality forest land at risk of conversion, and willing sellers who met the criteria. The Department has been working on longer range asset strategies and the effort needed to maintain forestry 50 to 100 years from now. It realized that the viability of the trust lands to remain in forest is dependent on the lands around it so the Department began looking at landscapes. He reviewed the boundaries of lands that the Department feels are important to retain for the viability of the trust lands long-term but also the state's working forest land base overall.

Mr. Sprague noted that in some cases the Department has identified interim hold and manage lands which are landscapes that have less amounts of trust lands and it is not clear if they will stay in long term forestry or not. The Department doesn't have enough of a presence to make a difference in these particular landscapes. DNR has also looked at conservation landscapes in two other capacities; one being natural area landscapes which are landscapes around existing NAP's and NRCA's. These include lands that are important in terms of conversion and the impact on the natural area features being protected. The other being conservation interest landscapes where there may or may not be existing natural areas, but there are some high conservation values and other parties are taking action to preserve or protect conservation values. Identifying these long term helps the Department make decisions about trust lands, in particular trust land transfers and will also help inform our non-trust acquisition activities. This has been done statewide.

Mr. Sprague noted that the regions were instrumental in the process and reviewed the lands that have been identified in each region. In South Puget Sound Region he noted that there is a landscape that has no trust lands within it, and is the only one out of the 40 that have been identified that doesn't. He said that there is good forest land and there is substantial growth in the Puyallup, Orting, Buckley areas. DNR recognized that loss of that landscape over time would have impact on landscapes to the north and to the south where there is interest in maintaining working forests.

Mr. Sprague noted that all of the non-forested part of eastern Washington can be considered an agricultural landscape with the exception of some areas around the Tri-cities that are converting. In Southeast region a large agricultural landscape has been identified and

represents an area where the rainfall is 12 inches or more per year which is key for dry land agricultural production. Agricultural opportunities are much more property driven in eastern Washington and don't require a large assembly of land to have productive agricultural lands.

Ms. Bunning pointed out that the work that Mr. Sprague is referring to is anchored off of the trust landscapes and its about working forestlands and areas of forests and conservation interests. She referred to the map where it reflects parcels of trust lands that aren't included in the boundaries. The Department hasn't taken a look at what is outside of those working forest lands but in eastern Washington a lot of those parcels are part of an agricultural lease and function fine as one section and don't need to be blocked up for the long term. Others towards the northwest are independent sections within the forest service, and the Department can't determine what the future holds for those parcels. Parcels in areas that are developing or have high populations are valuable for parks or open space, or they may become valuable as places for people to live.

Mr. Sprague explained that Southeast Region identified individual parcels that have good water development potential, and wind power leasing potential. He noted that there are large conservation interest landscapes identified related to shrub steppe habitat.

Ms. Bunning noted that there is a small amount of the original shrub steppe habitat which can compete with development for agriculture and wind power and that by recognizing this information the Department can make more informed decisions.

Mr. Nichols asked if this was nested in part of a working forest and since shrub steppe is not a forest, is there a disconnect.

Ms. Bunning replied that it is more of a work in progress, for example in Southeast Region much of it is agricultural; most of the working forests landscapes are on the east side of the Cascades and the region looked at the other types of assets it's managing.

Mr. Nichols said that he understands that this presentation is more of a working landscape with the context of wind, water, working forest, and agriculture.

Mr. Sprague replied that was correct and that the long range asset strategy looks at all the assets the Department manages including agriculture, forestry, shrub steppe, grasslands and developed agriculture.

Mr. Nichols said that the working forest concept that was legislatively authorized is a subset nested within the broader concept of all the assets that are managed overall.

Mr. Sprague agreed.

Ms. Bunning replied that when the Department started this work several years ago it was intended to be comprehensive but the forest conversion issue took the focus for awhile.

Chair Sutherland asked Ms. Bunning if the agricultural areas related to vineyards are a subset small enough to be included in the Department's review.

Ms. Bunning replied that they are not represented in this presentation but that there are other maps that identify them but that they haven't been developed as much as the forest lands.

Chair Sutherland said orchards and vineyards which can be a high value for return for investment, sometimes better than timber lands, could be considered a subset.

Ms. Bunning replied that the Department would ultimately like to show all natural resource commodities.

Mr. Sprague reviewed that from a trust perspective how important it is to work with the private landowners and others to keep the landscapes in working forests for the long term. After the areas were identified they were prioritized for transactions. The Department developed acquisition criteria related to trust investment returns, risk of conversion, loss of landscape as a result of conversion and additional conservation value. Mr. Sprague noted that the Hamilton, Starbird landscapes, as well as Bear Creek Purchase, were all determined to be high priority for use of the budget proviso money.

Ms. Bunning said that the effort with the forest lands at risk of conversion is guided by a long range look, 50 to 100 years out, to be sure that those trust lands are protected in a sustainable condition long term. The Bear Creek parcel purchase is a good example of lands that could have been converted into houses and would have made long term forestry non-viable in the future. By securing that property the Department created an intact block that protects both.

Mr. Sprague moved to the Boulder landscape in Snohomish County as well as the Markworth block which is an example of an interim hold and manage strategy which is being managed for forestry. Our ability to stay in this block in forestry long term is dependent on what happens on the adjacent private forest lands and we know that there has been discussion about a development proposal and if that were to occur the Department would lose the ability to practice long term forestry. In Olympic Region the East Jefferson landscape near Sequim is a high priority landscape with good exchange potential with a major industrial landowner, but also a good landscape to acquire some edge holding and in holding using the budget proviso money; the threat of conversion is high. In Pacific Cascade Region there are high priority landscapes in Clark County and development has occurred right up to our blocks. The Department is seeing some development in some of the in holdings within the block, and it will be a high priority to use the budget proviso money to secure that landscape.

Mr. Sprague said that the next steps will be to continue outreach efforts with key stakeholders talking about the work we have done in identifying the landscapes, coordinate the retention strategies and begin discussions about some of the lands that fall outside the long term working forest landscapes. The Department is beginning work on internal asset inventory taking the work we've done and inventory the portfolio of assets for each trust determining what percentage of their holdings are in the long term working forest landscapes, which are in the

working agricultural landscapes, etc. Mr. Sprague said they will bring this information back to the Board at a later date.

Chair Sutherland said that the realization of the vulnerability and the desirability of the Department's assets and where it should be looking for improvements or moving out of areas has become apparent as the Department has worked through this inventory. He said that is why he has pushed for larger footprints not only to protect the Department, but to also maximize value over the long term.

Mr. Kaino said that the Department needs to go out and be proactive and if it can sell a couple hundred acres on the outskirts of an urban growth area for a substantial amount per acre compared to forest land values, and then quadruple or more the acreage for forest lands, the price of those lands that are at a high probability of conversion is already high and the Department will pay much more than what it would pay for forestlands, but it overpaid for the premium of the development potential.

Ms. Bunning said that these lands were originally 16's and 36's and have appreciated significantly. She said the Department can capture the asset value and redeploy it for the long term.

Mr. Nichols said that working with other land owners to identify these kinds of lands is a good game plan, and that blocking up it is a way to protect the long term interest of the trusts. He said it addresses his concerns about the difficulty of managing in an urban landscape. He asked about Ms. Bunning's comment regarding solar power and carbon sequestration.

Ms. Bunning replied that she can't address whether the Department is talking with anyone about solar leasing, but the Department is open to that as well as other market opportunities.

Jed Herman said that the Department has been talking to companies that lease for wind power about co-locating solar panels but no action has been taken.

Chair Sutherland said that as technology continues to improve the probability is significant.

Mr. Kaino said that co-location is the key.

Ms. Bunning replied that it is a puzzle to layer together as much benefit as possible for the sustainability of society and our state, whether it is biodiversity conservation, new energy opportunities, or revenue for the trusts. She said that the more information the Department has the better it will handle those resources.

Mr. Kaino said that as other energy sources continue to come to light it becomes much more feasible to look at those opportunities.

Ms. Bunning said that we can't begin to imagine what could be here in 50 to 100 years.

Chair Sutherland thanked Ms. Bunning and Mr. Sprague for their presentation.

Recreation WAC Update (Handout 5)

Ms. Bunning updated the Board members on the Recreation WAC process. She noted that the updated rules are creating basic standards for public safety and will pertain to all land types managed by the Department. DNR is seeking to establish consistency across the state for what the expectations are for public use and recreation so that the public knows that the agency managers are managing consistently and law enforcement is facilitated. The rules have not been rewritten for the past 36 years. The Department has initiated the APA and SEPA processes and will be conducting a series of public hearings throughout the month of June and July. Public comments on the rules close July 8th. The rules are written in a Q&A format, they talk about common sense issues. There is a high degree of concern that access may be reduced or overly controlled although these rules do not establish access in any particular area they do set up a framework for how that would happen on a landscape or on a place by place basis. There are some rules around hosting events on the trust lands but each event will have its own requirements based on type and numbers. This is not to be confused with the working group on sustainable recreation that is the subject of House Bill 2472 which passed unanimously last session. This was proposed by the Department and would seek to establish a high level group of community leaders, recreation representatives, environmental groups, trust beneficiary and landowner representatives, and various agencies with the task of reviewing the relevance of the 35 year old multiple use policy; establishing a vision for recreation and sustainable funding for that recreation on lands managed by the Department. That effort will meet in early fall; comments and rule revisions will be put together by that time so that the group will have opportunity to shape policy issues in those rules. The group recommendations are due in December 2009.

Chair Sutherland asked when the group will start.

Ms. Bunning replied by September and the Department will be gathering stakeholder concerns and issues around the state in advance of that meeting.

Chair Sutherland addressed the press release in the Board packet noting that the Department will be holding discussions across the state.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

None

Chair Sutherland talked about the FSC certification in the South Puget Sound Region. He explained that our policies and practices in forestry in the region were submitted and they concurred with the FSC certification.

Bruce Bare congratulated Chair Sutherland and the Department on reaching such a great milestone. He asked if that means that the sales from that region can be marketed differently.

Chair Sutherland said that today's sales are certified FSC and SFI. If a mill has already been certified as meeting the criteria for mill operations then the mill can also carry that chain of custody and the logo that goes on the product that has been produced.

Jed Herman added that there are some ongoing conversations about small, unique niche markets and how they might come to bear it, which is an uncertainty whether it is directly from the Department or a secondary purchasing route.

Mr. Bare asked if the logs are coming from sustainably managed forests if it is up to purchaser as to whether they have this certification moving into their mill, and they can market it as FSC or SFI.

Mr. Herman agreed and said that it will be exciting to see how this plays out in the non-traditional pieces like pellets and the European markets. There are conversations about how the certification from our lands can carry through so it is recognized as an end product and if there is any product sharing that can be realized from that.

Mr. Bare said that it would be interesting to track who buys certain sales to see if the purchaser who wins the bid might be an FSC, therefore they outbid the non FSC which means the difference would be premium.

Mr. Herman said that he is not aware how that might come into play. He said that he is interested in the diversity.

Mr. Bare said that it might be interesting to follow that for a few years to see if there is any extra gain.

Chair Sutherland talked about the August Board retreat. He said that Bonita is working with Bill Boyum to arrange the details and that she would provide them as they unveil.

Meeting adjourned at 10:49 a.m.

Approved this 1st day of July, 2008



Doug Sutherland, Commissioner of Public Lands



Bob Nichols for Governor Christine Gregoire

EXCUSED


Terry Bergeson, Superintendent of Public Instruction



Jon C. Kaino, Commissioner, Pacific County

Excused

Bruce Bare, Dean, University of Washington



Daniel J. Bernardo, Dean, Washington State University

Attest:



Bonita Hill, Board Coordinator